

**REPORT OF THE AUDIT OF THE  
MARSHALL COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MARSHALL COUNTY SHERIFF**

**For The Year Ended  
December 31, 2005**

The Auditor of Public Accounts has completed the Marshall County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$986 from the prior year, resulting in excess fees of \$1,035 as of December 31, 2005. Revenues increased by \$59,943 from the prior year and allowable expenditures increased by \$60,929.

#### **Report Comments:**

- The Sheriff Should Adhere To State Procurement Law
- The Sheriff Should Reimburse His Official Account \$1,054 For Disallowed Expenditures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits as of November 30, 2006, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured - \$157,615.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Marshall County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Adhere To State Procurement Law
- The Sheriff Should Reimburse His Official Account \$1,054 For Disallowed Expenditures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Marshall County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 6, 2006



MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants:

Methamphetamine Grant	\$ 5,244	
Community Oriented Policing Services Grant (COPS)	49,500	
Byrne Formula Grant	<u>42,748</u>	\$ 97,492

State Grants:

Equipment Grant	1,500	
Highway Safety Grant	<u>11,480</u>	12,980

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		60,848
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State Fees For Services:

Finance and Administration Cabinet	128,635	
Cabinet For Human Resources	<u>2,880</u>	131,515

Circuit Court Clerk:

Fines/Fees Collected		11,061
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Fiscal Court		127,203
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County Clerk - Delinquent Taxes		4,449
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Commission On Taxes Collected		637,265
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Fees Collected For Services:

Auto Inspections	15,640	
Reports, Tapes, Photos	1,725	
Serving Papers	28,580	
Carrying Concealed Deadly Weapons Permits	<u>12,315</u>	58,260

Other:

Add-on Fees	79,969	
Auction Sales	12,043	
Impounded Vehicles	432	
Sheriff Advertising Fees	8,575	
Overtime Reimbursements	7,262	
Insurance Reimbursements	21,511	
School Officer	27,949	
Other Reimbursements	6,812	
DARE Reimbursements	754	
Miscellaneous	<u>570</u>	165,877

Interest Earned		10,781
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Borrowed Money:

State Advancement		<u>120,000</u>
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Total Revenues		<u>1,437,731</u>
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The accompanying notes are an integral part of this financial statement.

MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2005  
(Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services:

Deputies' Salaries	\$ 703,609
KLEFPF Incentive Pay	49,478
Overtime Salaries	85,611

Employee Benefits:

Employer's Share Social Security	3,499	
Employer's Share Retirement	<u>11,370</u>	\$ 853,567

Contracted Services:

Advertising		11,984
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Supplies and Materials:

Office Materials and Supplies	9,713	
Deputy Supplies	21,717	
Deputy Equipment	29,220	
Uniforms	7,728	
Radio Expense	4,463	
Radar Expense	<u>213</u>	73,054

Other Charges:

Conventions and Travel	9,551	
Dues	500	
Postage	10,527	
Bond	1,160	
Carrying Concealed Deadly Weapons Permits	11,370	
Cellular/Pager Expense	5,973	
K-9 Expenses	272	
Impounded Vehicles	989	
Fiscal Court Fees	9,450	
Blood Alcohol Testing	453	
DARE Expenses	499	
Drug Fund Reimbursements	2,792	
Jury Meals	488	
Miscellaneous	<u>3,055</u>	57,079

Transportation Expenses:

Prisoners		10,370
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Auto Expense:

Gasoline	51,577	
Maintenance and Repairs	37,251	
Vehicle Licenses and Registration	<u>86</u>	88,914

MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2005  
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay:

Office Equipment	\$	25,692	
Vehicles		117,678	
Vehicle Equipment		<u>2,760</u>	\$ 146,130

Debt Service:

State Advancement Repaid		<u>120,000</u>	
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Total Expenditures			\$ 1,361,098
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Disallowed Expenditures

Credit Card Charges Paid Without Supporting Documentation		<u>1,054</u>	
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Total Allowable Expenditures		<u>1,360,044</u>	
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Net Revenues			77,687
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Less: Statutory Maximum		<u>76,652</u>	
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Excess Fees Due Fiscal Court at Completion of Audit			<u>\$ 1,035</u>
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MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 30, 2005, \$157,615 of deposits were exposed to custodial credit risk as follows:

- Uninsured and Unsecured - \$157,615

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 4. Drug Forfeiture Account

The Marshall County Sheriff maintains a Drug Forfeiture Account, as set forth by KRS 218A.435. The account is funded by court-ordered forfeiture of money or funds received from the sale of forfeited assets, and interest received on deposits of forfeiture funds. The funds are to be used for various law enforcement operations, equipment, and education. As of January 1, 2005, the Drug Forfeiture Account had a balance of \$4,700. During the year, funds of \$6,270 were received and \$6,802 were expended, leaving \$4,168 balance as of December 31, 2005.

Note 5. DARE Account

The Marshall County Sheriff's Office maintains a Drug Awareness Resistance Education (DARE), Account for the promotion of drug awareness and prevention. Funding for the DARE Account is provided primarily by donations from local businesses and organizations, and interest earned on the deposit of these funds. As of January 1, 2005, the DARE Account had a balance of \$1,581. During the year, funds of \$4,051 were received and \$2,354 were expended, leaving a \$3,278 balance as of December 31, 2005.

Note 6. Benton Community Welfare Account

The Marshall County Sheriff is the administrator of a Community Welfare Account for the purpose of aiding transients and others in need. This account is entirely funded by contributions from local churches. As of January 1, 2005, the Community Welfare Account had a balance of \$2,050. During the year, funds of \$2,232 were received and \$1,469 were expended, leaving a \$2,813 balance as of December 31, 2005.

Note 7. Kentucky Law Enforcement Foundation Program Fund

The Marshall County Sheriff's Office participates in the Kentucky Law Enforcement Foundation Program Fund. This program, administered by the Kentucky Justice Cabinet, is designed to adequately train the Sheriff and his officers. During the year, program funds of \$60,848 were received and paid to qualified deputies.

Note 8. Grants

A. Byrne Formula Grant

The Marshall County Sheriff's office was awarded a Byrne Formula Grant under the Tri-County Drug Task Force for 2005. During the year, grant funds of \$42,748 were received. As of December 31, 2005, the Sheriff's office was in compliance with the terms of the grant agreement.

B. Methamphetamine Grant

The Marshall County Sheriff's office participates with the Pennyrile Drug Task Force, which was awarded a Methamphetamine Grant during 2005. During the year grant funds of \$5,244 were received. As of December 31, 2005, the Sheriff's Office was in compliance with the terms of the grant agreement.

MARSHALL COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

C. Highway Safety Grant

The Marshall County Sheriff's office was awarded grant funds through the Governor's Highway Safety Program. During the year grant funds of \$11,480 were received. As of December 31, 2005, the Sheriff's Office was in compliance with the terms of the grant agreement.

D. Equipment Grant

The Marshall County Sheriff's office was awarded grant funds through the Kentucky Justice and Public Safety Cabinet. During the year, grant funds of \$1,500 were received. As of December 31, 2005, the Sheriff's office was in compliance with the terms of the grant agreement.

E. Community Oriented Policing Services Grant

During 2005, the Marshall County Sheriff's office received a final reimbursement payment of \$49,500 from Community Oriented Policing Services (COPS) grant.

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## COMMENTS AND RECOMMENDATIONS



MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Adhere To State Procurement Law

KRS 424.260 requires that no sheriff may enter into a contract, lease, or other agreement for materials, supplies, equipment or contractual services other than professional, involving an expenditure of more than \$20,000 without first making newspaper advertisement for bids. During 2005 the Sheriff purchased six vehicles of which four were more than \$20,000 each. These vehicles were not advertised for bids. We recommend that, in the future, the Sheriff comply with KRS 424.260 by advertising for bids on all purchases of \$20,000 or more, or make the purchases from the vendor that holds the state price contract.

*Sheriff's Response: No Response.*

The Sheriff Should Reimburse His Official Account \$1,054 For Disallowed Expenditures

There was \$1,054 of charges listed on credit card statements that did not have accompanying receipts or other supporting documentation. When the credit card statements came in, these charges were paid. In *Funk vs. Milliken* 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

We recommend that the Sheriff deposit personal funds of \$1,054 into his official account, so that excess fees can be paid to fiscal court.

*Sheriff's Response: No Response.*

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff or his designee should periodically compare a daily deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This should be documented by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff or his designee should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff or his designee should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. This should be documented by initialing the quarterly financial report.

MARSHALL COUNTY  
TERRY ANDERSON, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2005  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION: (CONTINUED)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff or his designee should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This should be documented by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: No Response.*

PRIOR YEAR:

This comment remains uncorrected and is repeated in the current year audit report.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mike Miller, Marshall County Judge/Executive  
Honorable Terry Anderson, Marshall County Sheriff  
Members of the Marshall County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Marshall County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated December 6, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Marshall County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. This reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Marshall County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Adhere to State Procurement Law
- The Sheriff Should Reimburse His Official Account \$1,054 For Disallowed Expenditures

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 6, 2006



